

**Supplemental Reporting Document
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June 2011 Investment Committee Meeting
(April 2011 Reporting Period)**

Quarterly and Annual Reports

Securities Lending Earnings Quarterly Report

AIM Public Sector Outsourcing Policy Update Annual Report



California Public Employees' Retirement System
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Supplemental Item

June 13, 2011

TO: MEMBERS OF THE INVESTMENT COMMITTEE

- I. SUBJECT:** Securities Lending Earnings
Quarter Ended March 31, 2011
- II. PROGRAM:** Securities Lending
- III. RECOMMENDATION:** Information
- IV. ANALYSIS:**

Earnings for the quarter ended March 31, 2011, are presented to the Investment Committee for information.

	Average Lendable Assets (\$000)	Average % on Loan	Earnings on Avg. on Loan (Annualized)	Income to CalPERS (\$000)
Asset Class Earnings				
Global Equities	\$100,084,654	9%	79 bp	\$17,452
Global Fixed Income	\$34,742,752	20%	6 bp	\$969
Total Program Earnings	\$134,827,406			\$18,421
Unrealized gain on internal collateral reinvestment				\$29,297 *
Total Program Earnings including unrealized gain				\$47,719

*Unrealized gains resulted from CalPERS use of mark-to-market accounting on the valuation of the internal cash pool, which is not market convention on collateral reinvestment pools.

Policy Violations:

Our external cash collateral pool did not experience any policy violations during the fourth quarter of the calendar year.

Carry Over Violations:

Five Asset Backed Securities from two issuers and two Structured Investment Vehicles (SIV's) with credit quality policy violations carried over into the first

quarter of the calendar year. These securities were purchased by external managers and downgraded by Fitch, Moody's and S&P in prior periods.

Staff expects the remaining five Asset Backed Securities to pay down over the next 12 to 15 months. The SIV's are currently under review and Staff is working to maximize value and will continue to update the Board accordingly.

V. STRATEGIC PLAN:

This program contributes to the achievement of Goal VIII of the Strategic Plan by providing low risk incremental returns to the Fund.

VI. RESULTS/COSTS:

The securities lending program generated approximately \$ 18 million of revenue for the quarter ended March 31, 2011, including the unrealized gain of \$ 29 million, program earnings for the quarter were \$ 47 million. The average market value of securities on loan for the quarter was \$16 billion.

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Investment Officer
Fixed Income

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Supplemental Item

June 13, 2011

TO: MEMBERS OF THE INVESTMENT COMMITTEE

- I. **SUBJECT:** AIM Public Sector Outsourcing Policy Update
- II. **PROGRAM:** Alternative Investment Management (AIM) Program
- III. **RECOMMENDATION:** Information
- IV. **ANALYSIS:**

At its December 13, 2004 meeting, the Investment Committee approved the Policy for Restricting AIM Investments in Public Sector Outsourcers (Policy). The objective of this Policy is to restrict private equity investments in entities that are likely to outsource (or privatize) U.S., state, and local public sector jobs.

The Policy requires staff to update the Investment Committee on the impact and effectiveness of the Policy.

Results, Effectiveness, and Impact

To date, there have been no adverse impacts on AIM's investment opportunities or issues associated with compliance as a result of implementing the Policy.

AIM's prospective general partners are required to sign a written agreement that compels them to make a good faith effort to comply with the Policy restricting investments in Outsourcers. If the general partner does not agree to sign the written agreement, staff cannot approve an investment in the fund. However, staff can recommend the potential investment to the Investment Committee if the investment is deemed appropriate based on all the circumstances. Since the Policy was implemented, there has not been a fund whose general partner was unwilling to sign the written agreement.

As part of the due diligence for each new investment, staff and its consultants evaluate the general partner's track record to see if there is a history of investing in Outsourcers as defined in the Policy. Since the implementation of the Policy, none of the funds which have been through the due diligence process have been deemed to have a history of investing in Outsourcers.

The Policy allows general partners to request a waiver for a company that would otherwise be deemed an Outsourcer by making a written request to staff. CalPERS has not received any such requests. Staff's experience implementing the Policy suggests the private equity market has accepted the Policy.

V. STRATEGIC PLAN:

Goal VIII, manage the risk and volatility of assets and liabilities to ensure sufficient funds are available, first, to pay benefits and second, to minimize and stabilize contributions and Goal IX, achieve long-term, sustainable, risk-adjusted returns

VI. RESULTS/COSTS:

Additional legal negotiation and due diligence costs have been incurred as this policy is implemented. There may also be future investment opportunity costs that cannot be measured at this time.

SARAH CORR
Senior Portfolio Manager
Alternative Investment Management

JANINE GUILLOT
Chief Operating Investment Officer

JOSEPH A. DEAR
Chief Investment Officer